

ANNUAL REPORT

For the Year Ended
December 31, 1965

PHOENIX CANADA OIL COMPANY
LIMITED

Phoenix Canada Oil Company Limited

Incorporated in Ontario, Canada November 25, 1944

Directors

S. DONALD MOORE	Calgary, Alberta
RENNIE A. GOODFELLOW	Toronto, Ontario
EVERETT E. OTT	Toronto, Ontario
JOHN A. MURPHY	Toronto, Ontario

Officers

S. DONALD MOORE	PRESIDENT
EVERETT E. OTT	SECRETARY-TREASURER

Offices

HEAD OFFICE	Suite 405; 67 Yonge Street Toronto, Ontario
ALBERTA	Suite 210; 513-8th Avenue, S.W. Calgary, Alberta
ECUADOR	1140 Avenida Colon Quito, Ecuador
GUYANA	92 Middle Street Georgetown, Guyana

Banking

THE ROYAL BANK OF CANADA	
MAIN BRANCH	Calgary, Alberta
AND	
MAIN BRANCH	Toronto, Ontario

Stock Exchange Listing

CANADIAN STOCK EXCHANGE	Montreal
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Transfer Agents

GUARANTY TRUST COMPANY OF CANADA	Toronto, Ontario
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Auditor

CECIL B. BELL, C.A.	Toronto, Ontario
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Capitalization

AUTHORIZED	5,000,000 shares (\$1.00 par value)
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ISSUED AND OUTSTANDING	1,921,856 shares (of which 1,290,805 shares are escrowed)
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THE DIRECTOR'S REPORT

To The Shareholders

The year 1965 witnessed an interesting expansion in the worldwide scope of your Company's operations. Management planning over the years on several foreign oil and mineral resource development projects has now culminated in two successful application procedures; the first, an oil concession acquisition in British Guiana (now the independent nation of Guyana); the second, elsewhere in South America, a very large proven mineral development project on which details cannot yet be divulged pending completion of complex governmental and legal requirements. Management policy has concentrated on participations in larger-scale oil and mineral projects that hold major capital gains promise for our Shareholders. The potential rewards merit the considerable risks. Substantial positions are now held in a number of extensive, active oil land plays and in a mineral resource development project with vast proven reserves. Due to our relatively modest capitalization, any one of several already active exploration and development programmes affecting our key assets can result in news gratifying to our Shareholders during the ensuing year.

Canadian Arctic Islands

The Company maintains in good standing without further cost through December 1966 its substantial working and gross royalty interests in 2,344,844 acres in selected areas throughout the region, specifically situated as follows:

<u>Acres Held</u>	<u>Location</u>	<u>Interests Held</u>
1,474,166 acres	North Cornwallis and West Bathurst Islands	30% working and 2½% gross royalty
298,944 acres	West Devon Island	25% working and 2½% gross royalty
147,823 acres	North Ellef Ringnes Island	25% working and 2½% gross royalty
126,564 acres	Southwest Bathurst Island	15% working and 2½% gross royalty
297,347 acres	South and Central Cornwallis Island	10% working

All acreage was selected following surface and photo-geological surveys, evaluated with the sub-surface data obtained in the wildcat drilling on Cornwallis and Bathurst Islands; about 90% of Phoenix acreage is in the Cornwallis-Bathurst area, accessible by conventional transportation and the likeliest locale of early development.

Based on the steadily increasing store of Arctic geological and logistical knowledge, several major and independent companies have recently undertaken substantial new commitments throughout the Arctic Islands. Industry journals report a multi-million dollar seismic programme planned by Petropar, a major French government-controlled company, now one of the largest Arctic operators. The accelerating pace of acreage acquisitions by sophisticated, knowledgeable firms attest to their optimism on the eventual discovery of major economic oil reserves and assure continued well-financed exploration in a region of vital Phoenix interest.

Contractual arrangements are virtually complete on a long-term \$15-30 million 5-year exploration programme extending through 1970. Over 20 wells are planned, several on or closely adjacent to Phoenix holdings. The proposed contracts provide that all costs to 1971 will be borne by the financing interests; Phoenix would retain a 20% carried interest to 1971. Final project financing awaits certain Ottawa rulings, including approval of a Northern Development Loan applied for under

recent legislation designed to provide incentives for far Northern oil and mineral exploration. Ottawa has already granted a special moratorium through December 1966 on exploration work deposits originally due in June.

In late May an agreement of more immediate significance to the Phoenix Arctic interests was announced. Consolidated Mining and Smelting (now Cominco) acquired our partner's (Bankeno) working interest in all our royalty acreage (2,047,397 acres) for a substantial cash consideration and an important retained carried net profits interest. Phoenix thus holds its 25%-30% working interest and a critical 2½ % gross royalty in acreage to be explored and developed by one of the largest Canadian mining companies with corresponding financial capability. It remains pertinent to reiterate the often published comments on the Arctic Islands oil potential made by Dr. J. C. Sproule, the eminent Canadian geological consultant and Arctic expert: "The Canadian Arctic Islands afford independent oil companies the best opportunity in the world to develop into major companies. Never before has an independent had the opportunity to become a major oil company at such low cost." Dr. Sproule has also forecast that large oil reserves in the Arctic Islands would be "much easier to develop than in Western Canada, mainly because of the ease with which very large and prospective structures can be identified and delineated, due to the abundance of rock outcrop."

Eastern Ecuador Oil Concession

During 1965-6 Texaco and Gulf Oil recorded several new oil discoveries in the Colombia-Ecuador Putumayo-Pastaza Basin. There are now three major discovery areas immediately north of our Concession area; the original Orito Field discovery (Orito #22 was completed in May 1966); the Rio San Miguel Field, directly on the Ecuador border (Rio San Miguel #3 was completed in late April); and the new Temblon #1 discovery, also on the Ecuador border, which tested 852 bbls./daily of light gravity (36.2° API) oil in April. A further indicated discovery on the Ecuador border, Acae #2, set casing to 10,637' and has been testing. The three recent discoveries extend for over 30 miles in an east-west direction along the border. There are strong indications that the incidence of discoveries is improving as exploration extends southward from Orito towards Ecuador.

The first authoritative estimates of production plans for the region were released in late 1965; published industry journal statements claimed that "the development is proving one of major proportions and may soon get a pipeline outlet. Texaco and Gulf plan a \$70-million investment in a pipeline over the Andes . . . and a refinery . . . Production in the Putumayo area is expected to reach 50,000 b/d by 1970." Both the recent Texaco and Gulf Oil Annual Reports favourably reported on their Colombian drilling results and on future Ecuador oil prospects. Pipeline plans are reported as well advanced. Recent press releases in Quito state that actual construction should start by late 1966. The value of our gross royalty interest is considerably enhanced by the prospects of early marketability of discovered crude oil reserves.

In accordance with our original Concession Contract terms, and to comply with current oil laws taking into account Ecuador's vastly improved oil discovery potential, we are relinquishing certain selected acreage which is difficult of access under present conditions and which is deemed geologically unfavourable. Such open acreage, more expensive to explore, will thus become available to other operators. Their exploration will expand the geological knowledge of our own adjacent residual acreage. Our Ecuador subsidiary will retain approximately 4-million

acres, including the Texaco-Gulf royalty farmout block in the northern Concession sector.

Phoenix retains its 60% interest in the Ecuadorian operating subsidiary which now holds the 100% interest in all residual acreage, the 2% gross royalty in the 1,750,000 acre Texaco-Gulf farmout block and the \$100,000 (U.S.) cash consideration received in the Texaco-Gulf agreement. The appended Concession map, corrected only to January 1966, locates the farmout block and the several recent discovery wells with relation to our holdings and the Orito Field. The full legal descriptions of the present residual acreage is not yet available to the Company for inclusion in the map. Texaco-Gulf are now spending near \$400,000 monthly in Ecuador, largely on our farmout acreage. They have reported that initial Ecuador drilling is expected before September 1966; the several recent border discoveries apparently have committed available exploratory rigs for stepout and follow-up drilling in Colombia.

At the Report date, at least three major oil groups are developing proposals for the exploration of our residual Ecuador acreage. Technical representatives of all the groups have examined in detail in Quito all available geological, geophysical, political and logistical data. All have reported favourably to their principals. The groups include a joint-venture consortium of several large U.S. independents operating under the direction of a well-known international oil consultant of Houston, Texas; a major French government-controlled international oil company; and a large German independent oil company. All tentative farmout proposals provide for extended exploration programmes to be undertaken at no cost to Phoenix and our retention of interesting gross royalties and/or carried net profit interests.

Guyana Oil Concession

Resulting from applications commenced in February 1965 with the British Guiana authorities, Phoenix received notice in March 1966 of a Guyana Government grant of an Oil Exploration Licence in the Takutu Basin comprising 2,600 square miles, or over 1,660,000 acres. Phoenix holds a 50% undivided interest in the Licence area which has an initial term of two years. Our applications followed publication of United Nations Technical Mission reports on the new nation's oil resource prospects. The oil-prospective Takutu Basin, with sedimentary deposits indicated to depths of 20,000', is located on the Brazilian border about 200 miles south of Georgetown, the coastal capital.

Coincidental with our acquisition, Shell Oil announced a \$4-million 3-well basement drilling programme along the coast, the first such activity in Guyana in many years. Recent shallow oil discoveries in neighbouring Surinam (Dutch Guiana) has resulted in at least 4 producing wells from a depth of 600' in the Sarramacca area, a few miles east of the Guyana border, the first indicated commercial production in the entire Guyana coastal basin. Intense industry interest in the future oil prospects of the region is now evident.

With associated Canadian companies, Phoenix is also participating in proposals for a new Georgetown oil refinery development, now under formal consideration by the Guyana Government. Preliminary plans call for a \$12-million — 20,000 b/d project slated for completion by 1970. Participations by local investors and the Guyana Government are provided for in the overall project planning.

*Foreign Mineral
Resource
Development
Project*

In February, Phoenix, as operator, and associated companies were advised by the Government concerned that their competitive development proposal submitted in conformance with an Invitation to Bid first published in 1964 and covering a very large proven reserve of strategic mineral resources, was deemed to be acceptable over several others submitted in an international competition extending over two years. Phoenix was directed to immediately commence formal legal procedures leading to long-term development contracts which, because of a number of unique provisions, may well serve as landmark agreements for comparable resource developments undertaken by private enterprise in partnership with governments and national interests. Since 1939 the mineral reserves offered on competitive tender were maintained in the so-called National Fiscal Reserve, comparable to Alberta's proven oil land Crown Reserves. Though the deposits were known earlier, questions of marketing and transportation deferred development prior to and during the 1930's.

No project details can yet be divulged pending the completion and execution of complex legal documentation, now in process. Phoenix, through its associates, has already deposited over \$200,000 (U.S.) in performance bonds covering the first phase of development plans which are already reasonably well-advanced in the important phases of transportation, marketing and finance. Particulars on the mineral reserves, development contract provisions and production planning will be released as soon as possible. Management expects this project to make interesting reading for Shareholders.

*Alberta and
Manitoba
Interests*

Following a recent Crown sale, Phoenix acquired at nominal cost the 100% interest in a Petroleum and National Gas Reservation comprising 3,840 acres at Grande Prairie-Dawson Creek, Northwestern Alberta (Township 74, Range 11, W6M.), a geologically promising region soon to witness active exploration, particularly on an adjoining Texaco lease and acreage spread.

Phoenix retains a 2½% gross royalty in 12,669 lease acres in the Peace River-Clear Hills area of Northwestern Alberta near the Worsley and Pouce Coupe Gas Fields and within 18 miles of the Boundary Lake Oil Field, operated by The French Petroleum Company of Canada Ltd. at no cost to us.

In July 1965 the Company acquired the 100% interest in a 46,080 acre Central Manitoba Oil and Gas Reservation blanketing all Crown acreage on the well-known "Carman Trend" sub-surface structural feature. A developing land play through North-central Saskatchewan can rapidly affect the value of our Carman acreage. J. C. Sproule and Associates of Calgary have stated in a report prepared for the Manitoba Government that the "Carman Trend" conditions predispose to "encouraging prospects for the formation of stratigraphic traps" and that "the economic significance of this feature could be very great."

The Company continues to maintain in good standing its Snow Lake Manitoba gold prospect, comprising 18 Patented Mining Leases adjoining the former producing Nor-Acme Gold Mine. This property can attract renewed interest if recurrent speculation on possible gold price increases intensifies.

*Exemption - 15%
U.S. Interest
Equalization
Tax*

Of continued critical interest to present and prospective U.S. Shareholders is the exemption granted to outstanding common shares of the Company from the 15% Tax imposed by Section 4911 of the Internal Revenue Code, as added by the Interest Equalization Tax Act (Public Law 88-563).

Financial Notes

Management is particularly pleased to report that all recent acquisitions and development activity have been accomplished without the issue or commitment of common share capital. No senior or other equity financing or common share capital dilution is currently planned nor does this appear necessary in the reasonably foreseeable future. Shareholders will note that our working capital position was well maintained during the year and, in fact, improved during the year despite active operations. Since the year-end our working capital position has seen further improvement. Current assets will permit of another active year in line with Management's policy of concentrating on the initiation of larger scale exploration plays requiring nominal capital expenditures at their outset. By stringent control of operating and overhead expenses, our resources will continue to support progressive Company expansion.

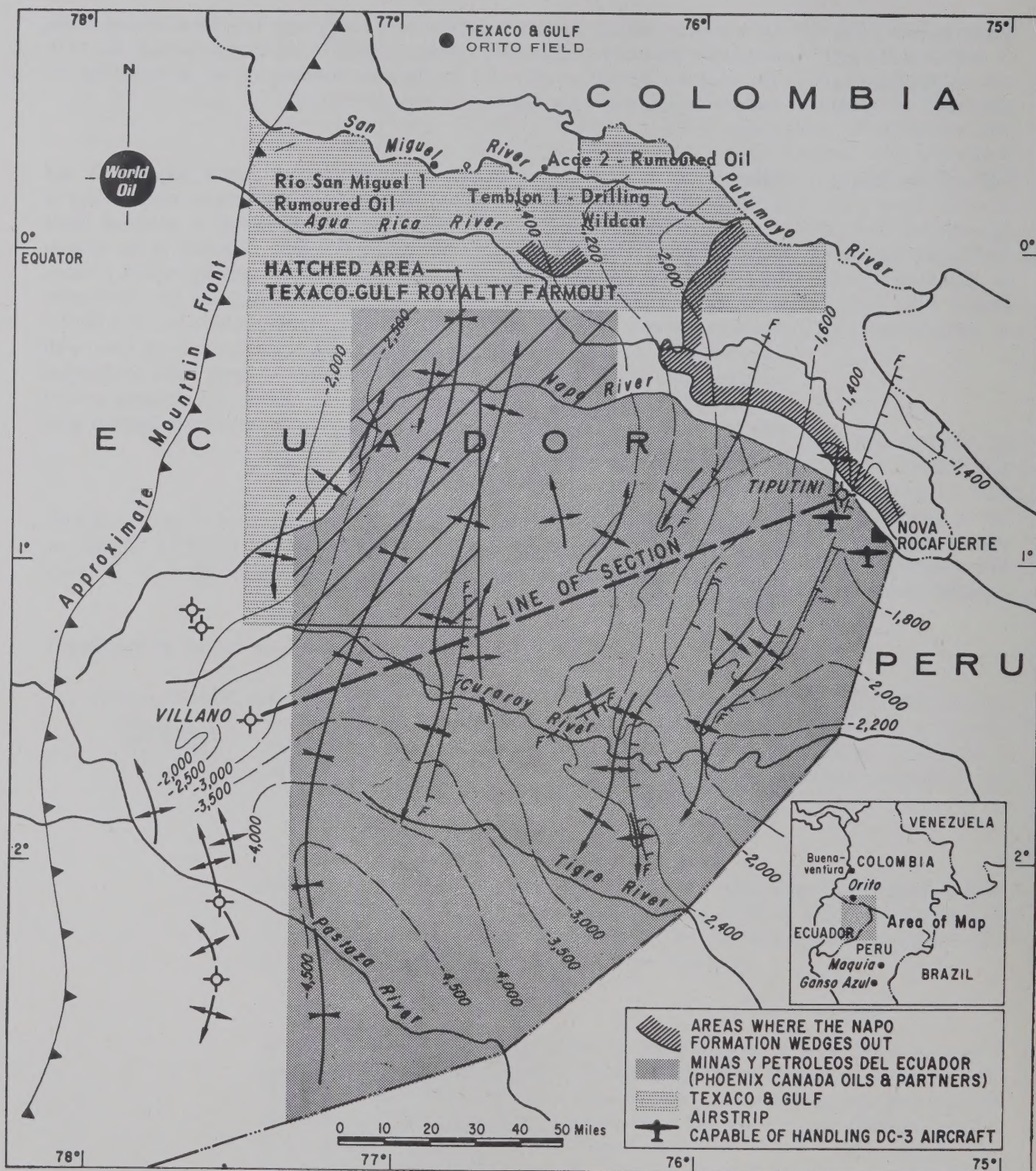
No common share equity was issued or committed during 1965. Our sole capitalization consists of 1,921,856 common shares (of which 1,290,805 shares are escrowed and 40,000 shares remain to be issued in escrow). There is no senior equity or funded debt.

Submitted on Behalf of the Board;

by S. DONALD MOORE,

President.

Toronto, Ontario
30 May 1966



EASTERN ECUADOR MAP OF PASTAZA CONCESSION

Map locating PHOENIX Pastaza Concession interests (dark shaded area — 10,750,000 acres, more or less) in Eastern (Oriente) Ecuador in relation to Texaco and Gulf Orito Field Oil discoveries. Structural contours shown (given in metres) are based on a reflection seismic horizon considered to correspond with the uppermost part of the Napo (Cretaceous) Formation. Smaller insert map locates Eastern Ecuador in relation to the Colombian Orito Field and the Peruvian Maquia and Ganso Azul Fields.

Phoenix Canada Oil Company Limited

Balance Sheet @ 31st December, 1965.

ASSETS

CURRENT:

Cash in Banks	\$ 26,190.13	
Marketable Securities, at cost	68,643.84	
(Market Value — \$98,164.50) (Note No. 1)		
Notes Receivable (Note No. 2)	8,733.95	
Accrued Interest on Notes Receivable	288.54	\$103,856.46

DEPOSITS:

Government of Canada Bond, at cost	\$ 938.75	
(Market Value — \$892.50) (Note No. 3a)		
Performance Bond (Note No. 3b)	6,000.00	6,938.75

FIXED:

Interests in Petroleum and Natural Gas Rights, Permits and/or Leases	\$ 48,662.66	
Mining Properties	115,001.00	163,663.66

DEFERRED:

Organization Expenses	\$ 3,769.98	
Exploration, Development and Administration Expenses per Schedule "A"	209,662.49	213,432.47
		<u>\$487,891.34</u>

LIABILITIES

CURRENT:

Accounts Payable and Accrued Expenses	\$ 3,437.23	
Owing to Broker re purchase of marketable securities (Note No. 1)	28,842.60	\$ 32,279.83

CAPITAL:

Authorized: \$5,000,000.00 divided into 5,000,000 shares of \$1.00 each
Issued — Fully Paid:

1,921,856 shares of \$1.00 each	\$1,921,856.00	
Less: Discount thereon	1,661,495.80	
	<u>\$ 260,360.20</u>	
40,000 shares to be issued (Note No. 4)	\$ 40,000.00	
Less: Discount thereon	20,000.00	20,000.00
	<u>\$ 280,360.20</u>	
Add: Surplus per Schedule "B"	175,251.31	455,611.51

See Note No. 5 re Management Incentive Stock Option Plan

Approved on Behalf of the Board:

S. DONALD MOORE,
Director.

EVERETT E. OTT,
Director.

\$487,891.34

The notes attached hereto form an integral part of this Balance Sheet.

Phoenix Canada Oil Company Limited

Notes to Balance Sheet @ 31st December, 1965.

- Note No. 1* These securities are subject to an amount of \$28,842.60 owing to a Broker and which is shown under Current Liabilities. The securities are held by the Broker.
- Note No. 2* These notes have been received to cover advances made in connection with the Ecuador Oil Concession. They are demand notes and bear interest at 3% per annum.
- Note No. 3* These consist of;
- (a) \$1,000 Government of Canada Bond — 4½ % 1983 deposited with the governmental authorities in the Province of Quebec having jurisdiction over the sale of shares to the public.
 - (b) Performance Bond Deposit with the Province of Manitoba; refundable upon completion of certain exploration work on oil and gas Reservation No. 81 comprising approximately 46,080 acres.
- Note No. 4* Included under issued capital is 40,000 shares which are to be issued at a discount of 50% as consideration for 15 Arctic Island Permits aggregating 493,215 acres and \$25,000 Government of Canada Bonds 3% Perpetuals. The bonds were sold during the year.
- Note No. 5* The Company has agreed to reserve 100,000 shares of its capital stock for the purpose of granting options to the personnel engaged in the exploration and development of the Pastaza Concession and that it will grant such options to such employees at a price of not less than 50¢ per share nor less than 20% under the market price prevailing at the time such options are granted, such options to expire no later than 30th June, 1967. Since 31st December, 1965, there has been an allocation of these shares.

These notes form an integral part of the Financial Statements.

Auditor's Report

To the Shareholders of
PHOENIX CANADA OIL COMPANY LIMITED.

I have examined the Balance Sheet of Phoenix Canada Oil Company Limited as at 31st December, 1965, and the Statements of Deferred Exploration, Development and Administration Expense and Surplus for the period ended on that date. My examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances. In my opinion the accompanying Balance Sheet with the related notes, and Statements of Deferred Exploration, Development and Administration Expense and Surplus present fairly the financial position of the Company as at 31st December, 1965, and the results of its operations for the period under review, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
17th May, 1966.

CECIL B. BELL,
Chartered Accountant.

Phoenix Canada Oil Company Limited

*Exploration, Development and Administration Expense
For the Year Ended 31st December, 1965.*

SCHEDULE "A"

EXPLORATION AND DEVELOPMENT — MINING CLAIMS

Government Fees and Taxes	\$ 360.00
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EXPLORATION AND DEVELOPMENT — OIL AND GAS LEASES

Geological Reports	\$ 1,081.44	
General Office Expense	714.84	
Legal Fees	360.00	
Telephone and Telegraph	511.12	
Travel Expense	2,388.32	5,055.72

ADMINISTRATION AND GENERAL

Bank Charges	\$ 9.51	
General Office Expenses	399.84	
Government Fees	276.83	
Legal and Audit	600.00	
Registrars' Fees	633.93	
Telephone and Telegraph	255.56	
Shareholders' Information	1,183.00	
Travel Expense	796.10	
Secretarial Services	824.04	
Executive and Administration Expense	1,261.45	
Rent	720.00	
Listing Fees and Expenses	100.00	
Interest Charges	1,596.00	
	\$ 8,656.26	
<i>Less:</i> Dividends Received	\$ 386.43	
Interest Earned	2,028.06	6,241.77

<i>Add:</i> Accumulated Expenses to 31st December, 1964	\$ 11,657.49
Total Expense per Balance Sheet	198,005.00
	\$209,662.49

Statement of Surplus For the Year Ending 31st December, 1965

Balance, 31st December, 1964	\$149,116.49
<i>Add:</i> Profit on the sale of investments during the year	26,134.82
Balance, 31st December, 1965	\$175,251.31

